

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

January 18, 2011

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee met on Tuesday, January 18, 2011, at 1:00 PM, in Room 169 of the Capitol Annex. Senator Bob Leeper, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Jim Glenn, Co-Chair; Senators Tom Buford, Jared Carpenter, and Julian M. Carroll; Representatives Robert R. Damron, Steven Rudy, and Jim Wayne.

Guests: Jeff Mosely, Finance and Administration Cabinet; Bob Wiseman, University of Kentucky; Ken Ramey, Northern Kentucky University; John Hicks, Governor's Office for Policy Management; Fred Engel, Kentucky Education Television; Sandy Williams, Kentucky Infrastructure Authority, and Brett Antle, Office of Financial Management.

LRC Staff: Shawn Bowen, Don Mullis, and Samantha Gange.

Welcome of New Members

Senator Leeper welcomed Senator Carpenter and Representative Glenn to the committee.

Election of House Co-Chair

Representative Damron nominated Representative Glenn for the position of House Co-Chair. The motion was seconded by Representative Wayne. Representative Damron then made a motion that nominations cease and that Representative Glenn be elected House Co-Chair by acclamation. The motion was seconded by Representative Rudy and approved by voice vote.

Approval of Minutes for November 16, 2010

Senator Buford made a motion to approve the minutes of the November 16, 2010, meeting. The motion was seconded by Representative Damron and approved by voice vote.

Resolution Honoring Senator Elizabeth Tori

Senator Leeper read a resolution honoring Senator Tori and her service to the committee and the Commonwealth.

Senator Buford made a motion for the resolution to be adopted by the committee. The motion was seconded by Representative Wayne and adopted by voice vote.

Correspondence Items

Senator Leeper asked Shawn Bowen, Staff Administrator, Capital Planning Advisory Board, to discuss correspondence items. Ms. Bowen said members' folders contained three items of correspondence: correspondence to Secretary Miller, Finance and Administration Cabinet, and President James Ramsey, University of Louisville, regarding no action being taken on projects because of cancellation of the December 2010 committee meeting; correspondence from Secretary Miller and President Ramsey, regarding approval of projects from the December 2010 committee meeting; and correspondence from the University of Kentucky reporting plans to use the Construction Management-at-Risk project delivery method for the Renovate Track and Field Facility project.

Information Items

Ms. Bowen said members' folders also contained several information items. The first two items were the quarterly status reports on capital projects from the Finance and Administration Cabinet and the universities that manage their own capital construction programs; and the quarterly status report on court facility construction and renovation projects from the Administrative Office of the Courts.

The third item was a memo from the Kentucky Infrastructure Authority (KIA) regarding additional federal requirements for the Clean Water State Revolving Fund (Fund A) and the Drinking Water State Revolving Fund (Fund F). The additional requirements include wage rate provisions, additional subsidization, and green projects.

The fourth item was a report on the Kentucky Horse Park (KHP) Hotel project lawsuit. According to the Lexington Herald-Leader, on January 4, 2011, a Franklin Circuit Court judge granted a summary judgment to dismiss the lawsuit brought by the Bluegrass Equine and Tourism Foundation because financing was not secured for the KHP Hotel project. According to the article, the judge ordered the Commonwealth to pay KHPWESLUX, LLC. \$476,322 in utility and construction costs incurred.

Jeff Mosely, General Counsel, Finance and Administration Cabinet, asked to address the committee regarding inaccurate information about the lawsuit that was reported in the media. Mr. Mosely said the state was not ordered to pay \$476,322 to KHPWESLUX, LLC. He said the Finance and Administration Cabinet filed a counter-claim against KHPWESLUX, LLC for \$476,322. The judge denied the Finance and Administration Cabinet's motion to collect the \$476,322.

Ms. Bowen said the last three information items included proposed legislation related to the jurisdiction of the committee and the staff and bond market updates.

University of Kentucky (UK) Wildcat Lodge Scope Increase

Senator Leeper asked Bob Wiseman, Vice President for Facilities Management, UK, to present three items. Mr. Wiseman said the first item was a request for a scope increase for the Replace Wildcat Lodge Student Housing project. UK requested a private funds scope increase of \$1,050,000 (15 percent) for a revised scope of \$8,050,000. The increase was necessitated because bids on the project came in over budget. He said the donors have agreed to fund the increase.

Senator Buford made a motion to approve the scope increase. The motion was seconded by Senator Carroll. Seven members voted “yes” and one member voted “no.” The motion passed.

UK Land Lease

Mr. Wiseman said the second item was a report of a land lease with Kentucky Medical Services Foundation (KMSF). He said UK leases four acres on its south campus to KMSF at \$1 per year. The lease will allow KMSF, in partnership with Child Development Care of the Bluegrass (CDC), a nonprofit corporation, to construct a 22,000 square-foot child care facility and associated parking. The facility will provide child care services to members of the community including children of UK faculty and staff. The \$6 million facility will be paid for by KMSF, CDC, and other private funds. Committee policy requires reporting of any construction taking place on state property. No further action was needed.

UK 4-H Camps Scope Increase

Mr. Wiseman said the third project was a request for a scope increase for the Renovate 4-H Camps project. UK requested a private funds scope increase of \$200,000 for a revised scope of \$2,200,000. The project was authorized in HB 406 (2008-10 budget), however, the university hoped that private donors would help construct 4-H cabins in addition to those which the \$2 million state funding would allow. Touchstone Energy, the Durr Foundation, and the 4-H Foundation have recently committed to construct two additional cabins at the North Central 4-H camp.

Senator Buford made a motion to approve the scope increase. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Northern Kentucky University (NKU) Land Acquisition

Senator Leeper asked Ken Ramey, Vice President for Administration and Finance, NKU, to present one item related to a land acquisition. Mr. Ramey said NKU is reporting the acquisition of two undeveloped parcels of land at 2636 and 2648 Alexandria Pike in

Highland Heights, Kentucky from the Northern Kentucky University Foundation (foundation). These parcels are located at the main entrance to the university's campus.

He said NKU conveyed the 2636 Alexandria Pike parcel to the foundation as part of a land swap deal between the two entities in 2002. The 2648 Alexandria Pike parcel was acquired by the foundation through a separate and unrelated transaction in 1999. This property had contained an old grocery store building and a single-family residence; the foundation demolished both buildings in 2008. The foundation had intended to develop both parcels in a manner consistent with the memorandum of agreement it had executed with the university. The acquisition price for the two parcels combined is \$2,200,000 (restricted funds). The acquisition was authorized in HB 1 (2010-12 budget) with a total scope of \$20 million. Land acquisitions over \$600,000 are required to be reported to the committee. No further action was needed.

Senator Leeper asked what purpose does NKU see the land serving. Mr. Ramey said the university wants to maintain "green space" as it relates to the main entrance to campus. He said future plans for the land could include the development of retail and office space.

Unbudgeted Capital Project from the Finance and Administration Cabinet for the Education and Workforce Development Cabinet, Kentucky Education Television (KET)

Senator Leeper asked John Hicks, Deputy Director, Governor's Office of Policy and Management, to present three items. Mr. Hicks said the first item was a request for an unbudgeted capital project for the Education and Workforce Development Cabinet, KET Transmission Lines Upgrade/Antennas project. The project scope is \$1,224,000 and will be funded from a federal grant from the National Telecommunications and Information/Public Telecommunications Facilities Program (50 percent) and restricted funds (50 percent) carried forward from fiscal year 2010. The project involves upgrading KET's analog transmission lines to carry digital signals. The upgrade will increase the coverage area of the signal and also upgrade two digital antennas.

Representative Rudy asked if this upgrade would address the current outage that people in the western part of the state are experiencing. Fred Engel, Senior Director of Technology, KET, responded affirmatively.

Representative Damron made a motion to approve the unbudgeted capital project. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Unbudgeted Capital Project from the Finance and Administration Cabinet for the Education and Workforce Development Cabinet, Employment and Training

Mr. Hicks said the second item was a request for an unbudgeted capital project from the Education and Workforce Development Cabinet, Employment and Training – Unemployment Insurance System upgrade. The project scope is \$8,519,300 and is 100 percent federally funded. The source of the funds is several U.S. Department of Labor grants. The grants will allow an upgrade to the Unemployment Insurance information technology infrastructure, security, and programming services. Other changes are associated with the extensions to the unemployment insurance benefits and state and federal changes to the laws.

Senator Buford made a motion to approve the unbudgeted capital project. The motion was seconded by Representative Damron and passed unanimously by roll call vote.

Unbudgeted Capital Project from the Finance and Administration Cabinet for Kentucky State University (KSU)

Mr. Hicks said the third item was a request for an unbudgeted project from KSU to Purchase Research Vessel. The project scope is \$320,000 and is 100 percent federally funded from a U.S. Department of Agriculture grant. KSU will purchase a 52-foot vessel that will be used as a floating laboratory for research and instructional programs.

Senator Buford made a motion to approve the unbudgeted capital project. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Kentucky Infrastructure Authority (KIA) Fund A Loans

Senator Leeper asked Sandy Williams, Financial Analyst, KIA, to present several loan requests. Ms. Williams said the first request was a \$1,105,000 Fund A loan for the City of Livermore in McLean County for the Sewer Rehabilitation project. The loan term is 20 years with an interest rate of one percent.

Senator Leeper asked if the public was aware of the rate increase associated with the project. Ms. Williams said KIA requires all rate increases to be passed at a public meeting with two readings.

In response to another question from Senator Leeper, Ms. Williams said the City of Livermore has not yet passed the rate increase. She said as a condition of the loan, the city must pass the increase by March 2011.

Representative Wayne commented that the committee should take up these loans once the rate increase has passed at the local level. He asked if it would be possible for KIA to submit the loan requests to the committee after the rate increases are passed. Ms. Williams said it could conflict with construction schedules, but it was not impossible.

Ms. Williams said the second request was a \$4,005,000 Fund A loan for the Regional Water Resource Agency in Daviess County for two projects to address an enforcement order to mitigate combined sewer overflows. The loan term is 20 years with an interest rate of one percent.

The third request was a \$1,800,000 Fund A loan for the City of Bardstown in Nelson County for the Bardstown-Bloomfield Sewer Connection project. The loan term is 20 years with an interest rate of two percent.

The fourth request was an \$895,000 Fund A loan for the City of LaCenter in Ballard County for the construction of two lift stations to replace undersized and dilapidated lift stations. The loan term is 20 years with an interest rate of two percent.

The fifth request was a \$3,000,000 Fund A loan for the City of Morehead for the benefit of the Morehead Utility Plant Board in Rowan County for the Wastewater Treatment Plant Flood Rebuild project. The loan term is 20 years with an interest rate of one percent.

Representative Damron asked if the rate increases are conditions of the loans. Ms. Williams responded affirmatively.

In response to another question from Representative Damron, Ms. Williams said KIA does not release funds until the loan conditions are met.

Representative Rudy made a motion to approve the five Fund A loan requests. The motion was seconded by Senator Buford and passed unanimously by roll call vote. The Fund A loans were approved subject to the loan conditions being met.

KIA Fund B Loans

Ms. Williams said the sixth loan request was a \$110,000 Fund B loan for the City of Caneyville in Grayson County to upgrade its existing wastewater treatment plant. The loan term is 20 years with an interest rate of one percent.

In response to a question from Senator Buford, Ms. Williams said in many cases, local governments use the KIA loan as a tool to implement rate increases because they are so unpopular.

The seventh loan request was an \$810,000 Fund B loan for the City of Crab Orchard in Lincoln County to replace the Lancaster-to-Crab Orchard Transmission Main. The loan term is 20 years with an interest rate of one percent.

The eighth loan request was a \$475,000 Fund B loan for the Bracken County Water District for the Short Roads Improvement and Upgrades project. The loan term is 20 years with an interest rate of one percent.

In response to a question from Representative Wayne, Ms. Williams said ten new customers in Bracken County will be served as a result of the Short Roads Improvement and Upgrades project.

Senator Buford made a motion to approve the three Fund B loans. The motion was seconded by Representative Damron and passed unanimously by roll call vote. The Fund B loans were approved subject to the loan conditions being met.

Senator Leeper asked if Ms. Williams could communicate to the KIA Board that when possible, the committee would prefer to review the loans with rate increases after they have been passed at the local level. Ms. Williams responded affirmatively.

KIA Grants

Ms. Williams indicated various coal and tobacco development grants authorized by the General Assembly were included in members' folders. Each project was authorized in a budget bill and no further committee action was needed.

New Bond Issue – Office of Financial Management (OFM)

Senator Leeper asked Brett Antle, Deputy Director, OFM to present a new bond issue. Mr. Antle requested approval of a new bond issue for Northern Kentucky University General Receipts Bonds, 2011 Series A. Proceeds from this bond issue will finance 1) the acquisition of land in single-family parcels, and 2) the acquisition of two radio licenses and equipment to allow the university's public radio station to extend its broadcast. The par amount of the bonds is \$9,460,000.

Senator Buford made a motion to approve the new bond issue. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Follow-up Report for Previously Approved Bond Issue – OFM

Mr. Antle said the follow-up report was for the University of Louisville General Receipts Bonds 2010 Series A (Build America Bonds) and Series B (Qualified Energy Conservation Bonds). This bond issue will finance energy conservation measures within 17 buildings on the Health Science, Shelby, and Belknap campuses. These improvements are expected to generate an annual utility cost savings of over \$2,000,000. The committee did not take action on this bond issue because the December 2010 meeting was cancelled. The committee received a letter from the Finance and Administration Cabinet advising the committee that it would proceed with the bond issue. No committee action was needed.

School Bond Issues

Mr. Antle reported six new bond issues with School Facilities Construction Commission (SFCC) debt service participation for Boone County, Bourbon County, Hopkins County, Jackson County, Robertson County, and Southgate Independent in Campbell County.

Senator Buford made a motion to approve the six new bond issues with SFCC participation. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Senator Leeper asked Ms. Bowen to report one new local school bond issue. Ms. Bowen reported one new local school district bond issue with 100 percent local debt service support for Hopkins County.

With there being no further business, Representative Damron made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 1:50 p.m.